

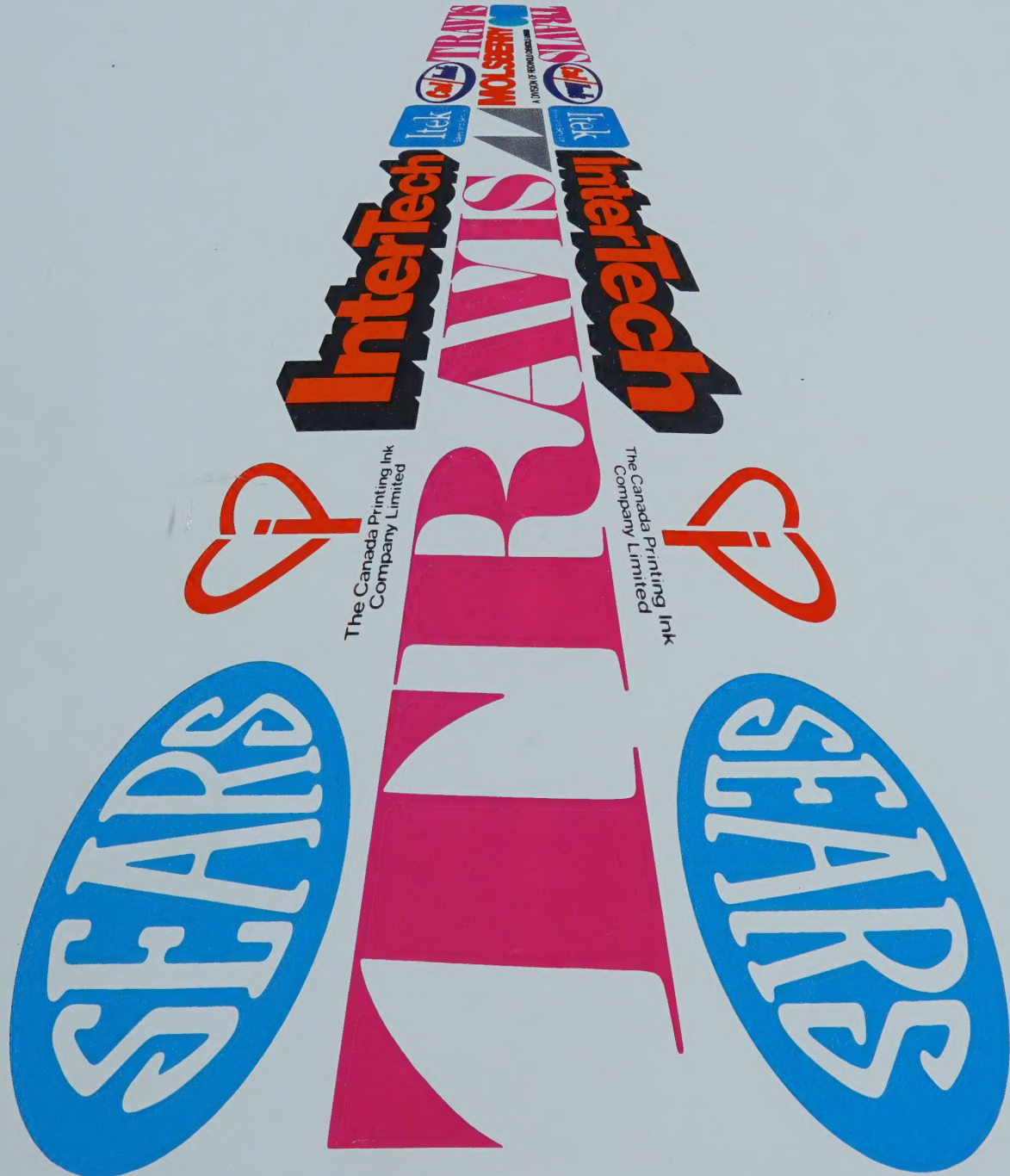
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REICHHOLD

REICHHOLD CHEMICALS LIMITED



REICHHOLD CHEMICALS LIMITED 1976 ANNUAL REPORT / RAPPORT ANNUEL 1976



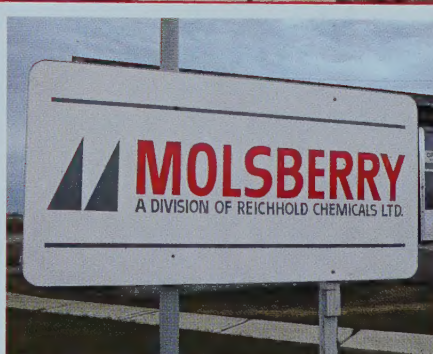
NEW HORIZONS



Reichhold Chemicals



Travis Chemicals



Molsberry



Intertech

**The following is a Report to
Shareholders of Reichhold Chemicals
Limited from George L. Hagen,
President and Chief Executive Officer**

In past reports we've talked about customer service, industry leadership and other important factors in the Company's continued growth. This year, I'd like to talk about some of the new horizons that lie before Reichhold as a result of aggressive marketing and acquisitions.

Much of Reichhold's success, from its small beginning in Canada twenty-six years ago, has come from a carefully developed marketing sensitivity to the sometimes complex needs of the industries we serve. For example, the completion of a new facility in our North Bay plant will supply resins used to manufacture waferboard. Development of these resins began over three years ago: the result of a heads-up marketing approach that has put the company in a strong position to serve yet another need.

"We passed a marketing milestone with over \$100 million in sales."

In 1976, the company entered its third "five-year growth plan". This report is filled with examples of marketing moves which helped the company achieve, and surpass, its ambitious plans, with sales of \$100,337,000. Profits of \$2,381,000 were disappointing but satisfactory considering the marginal growth in Canada's Gross National Product. Inflation and increased costs continued to squeeze profit margins, while many customers, particularly during the second half of 1976, reduced their inventories. All of this resulted in a 0.6% fourth quarter downturn in the GNP and a slow-down in our business. Despite the disappointing economy we have expanded.

I would now like to review the company's operations, introduce some newcomers to the Reichhold Group and, at the same time, offer a very sincere thank-you on behalf of the Board of Directors and the Shareholders, to all those whose efforts made 1976 a record sales year. It is these combined talents that have made it possible for the company to meet the needs of its customers efficiently and profitably.

"The Reichhold Group continues to invest in new product development and more efficient production."

For those who are unfamiliar with the general composition of the Reichhold Group, here is a brief historical sketch. We opened our doors in the Canadian market in 1950, in Weston, Ontario, as a small subsidiary of an American company producing a limited line of chemical products. In the next ten years, sales grew to about \$10 million, we opened new plants in St. Therese, Quebec and Port Moody, B.C. and we acquired Varcum Chemicals. In the process, Reichhold became a public company. Today over 85% of our Shareholders reside in Canada and hold 60% of our shares.

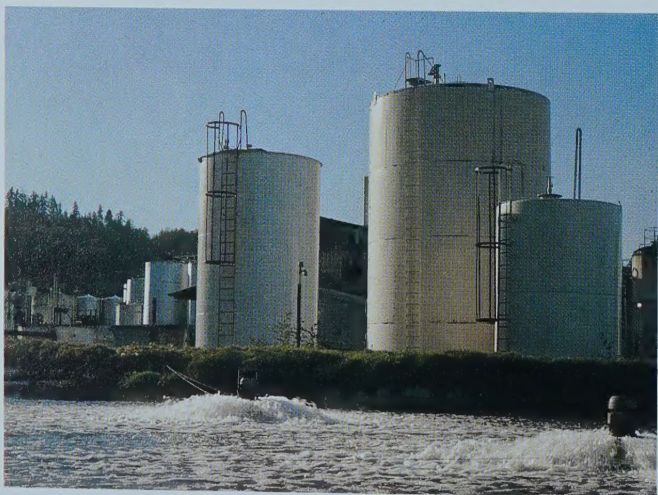
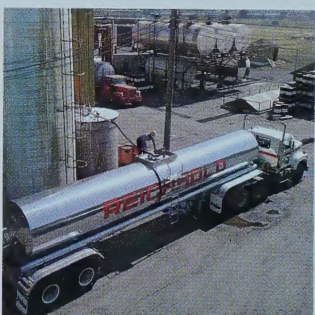
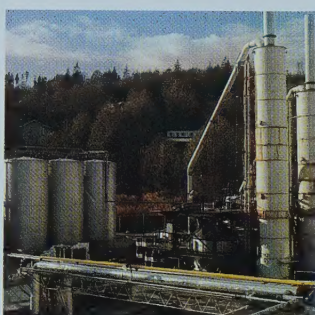
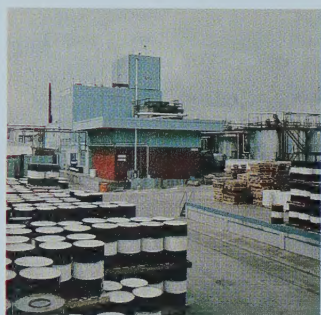
Through the years, Reichhold expanded its research and production expertise as it diversified into many markets, providing synthetic resins and chemicals to the forest products



Sears



Canada Printing Ink



A continuous program to develop products that meet specific customer needs has led to increased investment in production facilities and opened new horizons for Reichhold products and services.

Vous trouverez ci-dessous le Rapport aux Actionnaires de Reichhold Chemicals Limited, émanant de M. George L. Hagen, président et chef de la direction.

Dans les rapports précédents, il a été question du service à la clientèle, de la place prépondérante qu'occupe la Compagnie dans l'industrie et de facteurs dont l'importance joue un rôle capital dans l'expansion continue de la Compagnie. Cette année, j'aimerais vous entretenir des domaines qui, à la suite d'une commercialisation intense et de diverses acquisitions, ouvrent des horizons nouveaux pour Reichhold.

La majeure partie du succès remporté par la Compagnie depuis ses modestes débuts au Canada il y a vingt-six ans, résulte d'un sens aigu des exigences parfois complexes des industries que nous servons. Prenons par exemple l'achèvement des aménagements à notre usine de North Bay d'où proviennent les résines destinées à la fabrication des panneaux gaufrés. La mise au point de ces résines a débuté il y a plus de trois ans et c'est le résultat de démarches déterminées qui a permis à la Compagnie d'acquérir un rang enviable pour satisfaire encore d'autres exigences.

"Nos opérations de commercialisation ont dépassé le niveau des \$100 millions de ventes."

En 1976, la Compagnie entamait son troisième "plan quinquennal d'expansion". Ce rapport est un compte rendu des mouvements audacieux qui ont aidé la Compagnie à atteindre d'abord, puis à surpasser ensuite ses objectifs puisque ses ventes ont atteint \$100,337,000. Les profits de \$2,381,000 ont été quelque peu décevants mais satisfaisants néanmoins si l'on considère l'expansion marginale du Produit National Brut canadien. L'inflation et la majoration des frais continuent à réduire les marges bénéficiaires et de nombreux clients, surtout pendant la deuxième moitié de 1976, ont considérablement diminué leurs inventaires. Ces facteurs se sont traduits, au cours du quatrième trimestre, par un repli de 0.6% dans le PNB et par un ralentissement de nos affaires. En dépit d'une économie défaitiste, nous avons progressé. J'aimerais maintenant passer en revue l'exploitation de la Compagnie, présenter quelques nouveaux venus au sein du groupe Reichhold et, par la même occasion, remercier au nom du Conseil d'administration et des actionnaires tous ceux d'entre vous dont les efforts ont contribué au succès de nos ventes en 1976. Ce sont ces talents combinés qui ont permis à la Compagnie de faire face aux exigences de sa clientèle d'une façon aussi profitable qu'efficace.

"Le group Reichhold continue à investir dans la mise au point de nouveaux produits et à améliorer sa production."

Pour ceux d'entre vous qui ne connaissent pas la composition générale du groupe Reichhold, en voici brièvement l'historique. C'est en 1950 que nous avons ouvert nos portes au marché canadien, à Weston, Ontario, en tant que petite filiale d'une compagnie américaine fabriquant une gamme restreinte de produits chimiques. Dans les dix

industry, and to paint, adhesives and plastics manufacturers. From this balanced base, Reichhold made its first move to enter the third largest market in Canada — the graphic arts industry — with the purchase of Canada Printing Ink in 1968. Five years later, the purchase of Sears Limited, a leading distributor of printing equipment and supplies, made Reichhold a leader in the graphic arts industry. What followed for Reichhold was a period of strengthening research and production capabilities with heavy capital investments, of exploring and exploiting opportunities to develop and market new products while maintaining strong ties with existing customers.

Early in 1976, we began a planned program to add marketing strength through the acquisition of select companies generally compatible with our markets, yet offering new horizons for growth and earnings. This led to the 1976 purchase of Travis Chemicals, Molsberry, Cal/Ink and Intertech, along with the appointment of Sears Limited as exclusive Canadian distributor of Itek graphic products.

Today, Reichhold Chemicals and its subsidiaries employ over 900 people, operate 25 plants, branches, warehouses and sales offices in 17 centers across Canada. We are involved in manufacturing and marketing products to Canadian industries whose end products, ranging from your daily newspaper, to furniture or boats, paints and panelling, are a part of Canadian living.

“Reichhold Chemicals’ investment in Travis Chemicals and Molsberry broadens our distribution horizons.”

This then, is a corporate overview of the Reichhold Group, whose individual components I would now like to discuss.

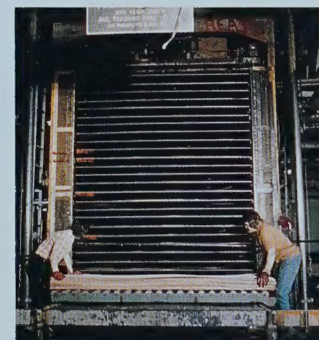
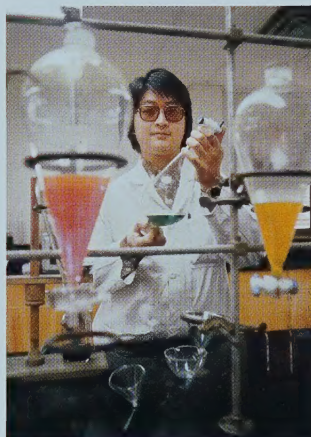
As one part of a program to strengthen market penetration in chemical products, Reichhold acquired two Canadian chemical companies in 1976. We welcome the new additions to our group and look forward to growing together. Travis Chemicals are well known for custom blending and distributing chemicals for the gas processing and oil well industries. A supplier of specially formulated chemicals used in the day-to-day operations of these industries, Travis Chemicals has a unique “trouble shooting” Technical Service Group. These professional laboratory analysis services have contributed significantly to gas and oil processing technology.

Molsberry was formed to answer a need expressed by many of Travis Chemicals’ major oil and gas refiners for systems to control vegetation. The company’s high performance MOWTRAC brush cutters are familiar sights along oil and gas pipelines. Molsberry markets mechanical and chemical vegetation management services for rights-of-way on oil and gas lines, hydro lines, railways and highways. The divisions have facilities located in Calgary and Edmonton, Alberta, Fort St. John, British Columbia and Peterborough, Ontario.

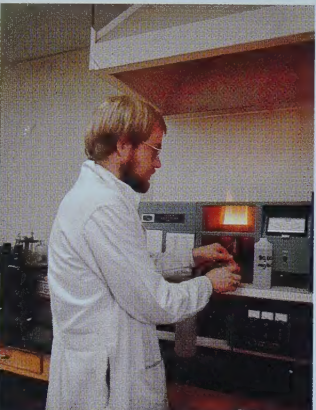
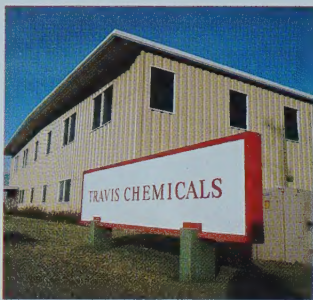
Annual combined sales of these companies are now about \$14 million, and the prospects for diversified and rapid growth in these new markets are further enhanced with the acquisition.

“Another step in expanding our distribution — Intertech — is off and running.”

Reichhold Chemicals’ polyesters and plastics markets have shown steady growth, warranting a program of continued investment.



Reichhold’s commitment to Canada’s forest products industry has resulted in continued investment in production facilities and the development of resins for manufacture of plywood, waferboard and special printed paper sheets for decorative overlays.



The addition of Travis Chemicals and Molsberry will broaden Reichhold's marketing horizons into custom blended chemicals and vegetation control services for Canada's gas and oil industries.

années qui suivirent, les ventes avaient dépassé \$10 millions et nous permirent d'ouvrir de nouvelles usines à Sainte-Thérèse, P.Q. et à Port Moody, C.-B., puis d'acquérir Varcum Chemicals. Ce faisant, nous sommes devenus compagnie publique dont plus de 85% des actionnaires résidant au Canada détiennent 60% de nos actions. Au cours des années, Reichhold a perfectionné la recherche et la production au fur et à mesure de sa pénétration sur divers marchés, mettant à la disposition de l'industrie des produits forestiers et des fabricants de peintures, d'adhésifs et de plastiques, des résines synthétiques et des produits chimiques. C'est en partant de cette base bien équilibrée que Reichhold a pénétré dans l'industrie des arts graphiques — un marché qui se classe au troisième rang des grands marchés canadiens — en achetant Canada Printing Ink en 1968. Cinq ans plus tard, l'achat de Sears Limited, un chef de file parmi les distributeurs d'équipement et de fournitures pour l'imprimerie, a contribué à placer Reichhold en tête de l'industrie des arts graphiques. C'est alors que nous avons consolidé notre programme de recherche et nos possibilités de production grâce à l'investissement d'un lourd capital, à l'exploration et à l'exploitation des occasions qui s'offraient de mettre au point et de lancer sur le marché des produits nouveaux tout en conservant des liens étroits avec la clientèle existante.

Au début de 1976, nous avons entamé un programme concerté pour renforcer la commercialisation par l'acquisition de compagnies qui, bien que compatibles avec nos marchés, offraient cependant des possibilités nouvelles d'expansion et de gain. C'est ce qui nous a conduits à l'achat de Travis Chemicals, Molsberry, Cal/Ink et Intertech, et à la nomination de Sears Limited en tant que distributeur canadien exclusif des produits Itek pour l'art graphique.

Aujourd'hui, Reichhold Chemicals et ses filiales comptent plus de 900 employés, exploitent 25 usines, succursales, entrepôts et bureaux de vente dans 17 centres canadiens. Nos opérations combinées comprennent la fabrication et la mise en marché des éléments indispensables aux industries canadiennes de transformation des produits nécessaires à la vie canadienne, depuis le papier journal et les meubles jusqu'aux bateaux et aux panneaux de lambrassage.

George L. Hagen

GEORGE L. HAGEN
président et chef de la direction

A new venture for the Company, Intertech has opened yet another distribution channel for Reichhold products; much of it is direct to the consumer. From its initial location in Richmond, B.C. the Reichhold acquisition has allowed for rapid expansion to five retail warehouse locations in Vancouver, Calgary, Winnipeg, Montreal and Halifax. A new Toronto facility is scheduled to open in 1977. Intertech brings Reichhold resins and reinforced plastics technology to the do-it-yourself and many industrial fabricators. The company markets a line of products for the reinforced plastics industry including C-Flex fibreglass 'planking', resins, catalysts, gelcoats and colour concentrates, glass mat, tools and equipment ideal for the professional or amateur boat builder and other fabricators. Their ease of application, combined with expert advice and Reichhold resins, allows the average person to fabricate diverse products. These range from boats to sundeck covers, home awnings and camping trailers.

We have achieved an enviable track record as manufacturers of polyester resins used in reinforced and non-reinforced plastic products. Our customers' products, ranging from computer housings and high pressure water pipes to air-conditioning duct work for the Montreal Olympic Stadium, will continue to be in demand for their high-strength, long-life features. Polyester resins, manufactured at our three plants in St. Therese, Quebec; Weston, Ontario and Port Moody, British Columbia, will continue to find their way to the consumer market in boats, restaurant seating, snowmobiles and simulated marble vanity tops.

In a year when Canadians began to feel the high cost of heating, Reichhold accelerated a program to market its insulation resin technology. Versatile urethane foam insulation, phenolic and urea formaldehyde foams are now being used to insulate irregular shaped objects, buildings, freezers, cars and boats.

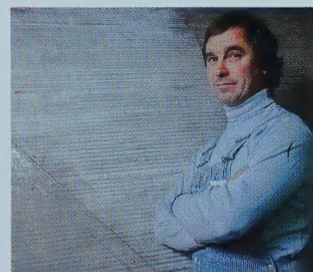
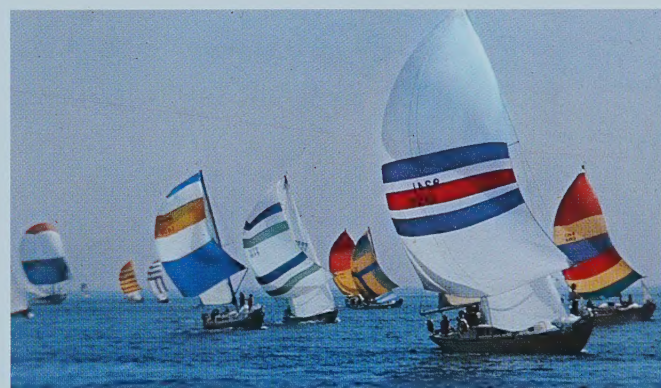
Our Lindsay, Ontario, plant manufactures thermosetting phenolic moulding compounds used in the manufacture of many household and automotive products.

"Extensive research and development have helped maintain our marketing momentum."

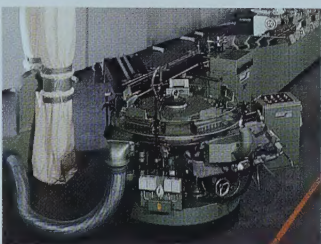
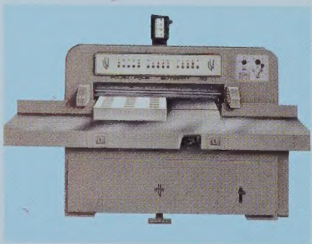
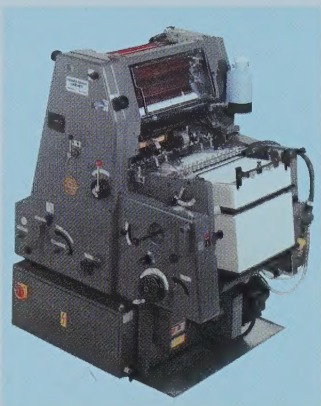
An aggressive program to keep the company on top of the latest developments in forest products applications has led to a unique development. Reichhold's laboratory people, technical sales and customers worked closely to perfect a new technique for producing Reichhold powdered phenol formaldehyde resins for bonding waferboard. The result is a \$1.5 million spray dryer at our North Bay plant that is contributing substantially to growth and profits in this new market.

In 1976, the company completed a new \$4 million resin plant in Thunder Bay, Ontario, to supply increased demands for resins in forest products applications. Like all Reichhold plants, this new facility is located close to the markets it serves in this case to satisfy the special needs of customers in north-western Ontario. The almost-completed Treated Fibre Products plant in St. Therese, Quebec, represents an investment of \$1 million for the production of special printed paper sheets used as overlays on furniture, television cabinets, exterior signs and paintable sidings.

The company supplies resins for the plywood, particleboard and hardboard manufacturing industry from its five plants in Port Moody and Kamloops, B.C., North Bay and Thunder Bay, Ontario, and St. Therese, Quebec.



Intertech markets a complete line of products for the reinforced plastics industry, including Reichhold resins, fibreglass, tools and supplies for the professional or amateur boat builder and other do-it-yourself applications.



The appointment as Canadian distributors of Itek Graphics Products will provide new opportunities for Sears to further establish its reputation for sales and service excellence in the printing industry.

We've come a long way in the surface coatings business. We started with a small alkyd manufacturing plant in Weston twenty-six years ago. Today, through innovative marketing and efficient production, we are one of the largest Canadian manufacturers of resins for surface coatings. Three strategically located plants produce a complete line of alkyds, urethanes, polyesters, phenolics and polyvinyl acetate emulsions. Our reputation has spread beyond the traditional uses of alkyds and vinyl acetate emulsions in paint, with the development of water-borne resin systems. In specific uses, these products promise even better application performance and reduced energy requirements in manufacturing.

Ambitious new product development programs are a way of life for our surface coatings people. They continue to formulate special coatings to inhibit corrosion in industrial and commercial applications, and new solvent-free coatings that dry almost instantly under ultra-violet light and electron beams; all developed to meet the changing needs of our customers.

"Two out of every three Sears employees are directly involved in sales and service. Our customers wouldn't have it any other way."

In a move to further expand its markets to serve the thousands of small printing operations, in-house company printing departments, advertising and design houses, Sears recently completed negotiations for the exclusive rights to distribute Itek graphic arts products in Canada. The highly regarded line-up of Itek products includes the revolutionary new Quadritek 1200 Photo-typesetter, a complete range of platemakers, camera processors, photo sensitive materials and supplies for printers.

A well-established Canadian company acquired by Reichhold in 1973, Sears has an enviable reputation as the leading distributor of products and services for Canada's large graphic arts industry. We distribute some of the best products in the world, including famous Heidelberg presses, Polar paper cutters, Baum paper folders, Mueller Martini and Bobst bindery equipment, and other superior printing products. However, the job is just beginning when the sale is made.

Sears expert technical teams install the sophisticated machinery, train the customers' employees and stay on alert to service or repair equipment. Sears also stocks a wide variety of printing supplies including film, plates, blankets and solvents to keep their customers' presses rolling.

The present fourteen offices and warehouses in all major Canadian centres form a distribution network unparalleled in the industry.

This aggressive sales program, combined with the new Itek product line, will further entrench Sears Limited as a major contributor to Reichhold's growth and earnings.

"Canada Printing Ink meets the challenge of a dynamic printing industry."

Keeping up with ink technology for today's high-speed presses is a complex task, but leading the industry in the development of new products is an even more demanding job. Our subsidiary, Canada Printing Ink, has done just that, with its never ending research and development programs.

In 1976, researchers at C.P.I. and Reichhold added a new technological break-through — a series of infra-red

curing inks that promises to meet and surpass competitive off-shore technology — to a long list of ink innovations, including heat-set inks, precipitation inks, wax set inks and flexographic inks. An extremely fast drying and versatile ink, the new infra-red series can be used without benefit of infra-red dryers and still reduce normal drying time, and hence, production costs.

Another new product, water-reducible inks for gravure printing of cartons, meets the growing need for high volume, low polluting inks. The year also marked the opening in Edmonton of C.P.I.'s second plant to produce newspaper ink and ink for high speed web-offset presses. These developments complement other industry innovations of C.P.I. including Computer colour ink formulation system for fast, efficient computer matching of colour, and the inventory reducing Mix and Match system that gives access to 2,800 colours and over 2,000 tints from 13 basic ink colours. This emphasis on new product development has contributed to steady sales growth in the company's thirteen major market locations and the licensing to foreign countries of Canada Printing Ink technology and production techniques.

On the service side, the company continues to develop increased sales of its line of prepress supplies and chemicals.

The 1976 purchase of Cal/Ink by Canada Printing Ink was a natural one. Based in Vancouver and Calgary, the company manufactures a variety of inks that complement C.P.I.'s products. In addition to their own product lines, Cal/Ink's experienced sales force will introduce Canada Printing Ink products and Reichhold's resin technology to new and established customers.

It's all part of an aggressive program to ensure that Canada Printing Ink will continue to play an important role in the growth of the Canadian graphics industry and in the company's earnings.

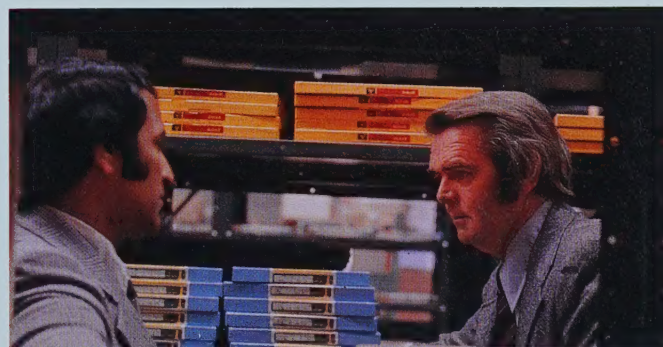
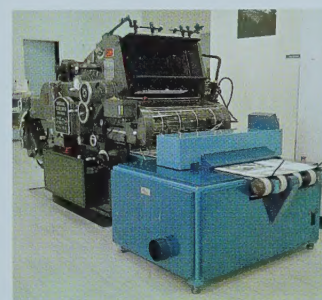
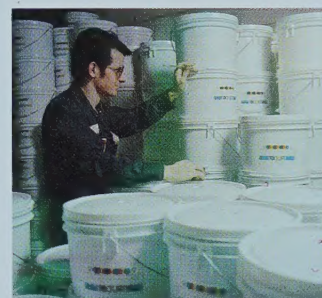
In summary, Reichhold enters 1977 with ambitious plans to build further on the broad base of traditional and new market horizons developed over the years. Emphasis will be placed on continued investment in Canadian operations, to broaden sales and to improve efficiency and profitability. We will also pursue an on-going program to acquire compatible companies that will further stabilize Reichhold's performance.

Many thanks again, to the employees of the Reichhold Group whose efforts are sincerely appreciated. We welcome those employees who joined the group in 1976.

George L. Hagen

GEORGE L. HAGEN
President and Chief Executive Officer

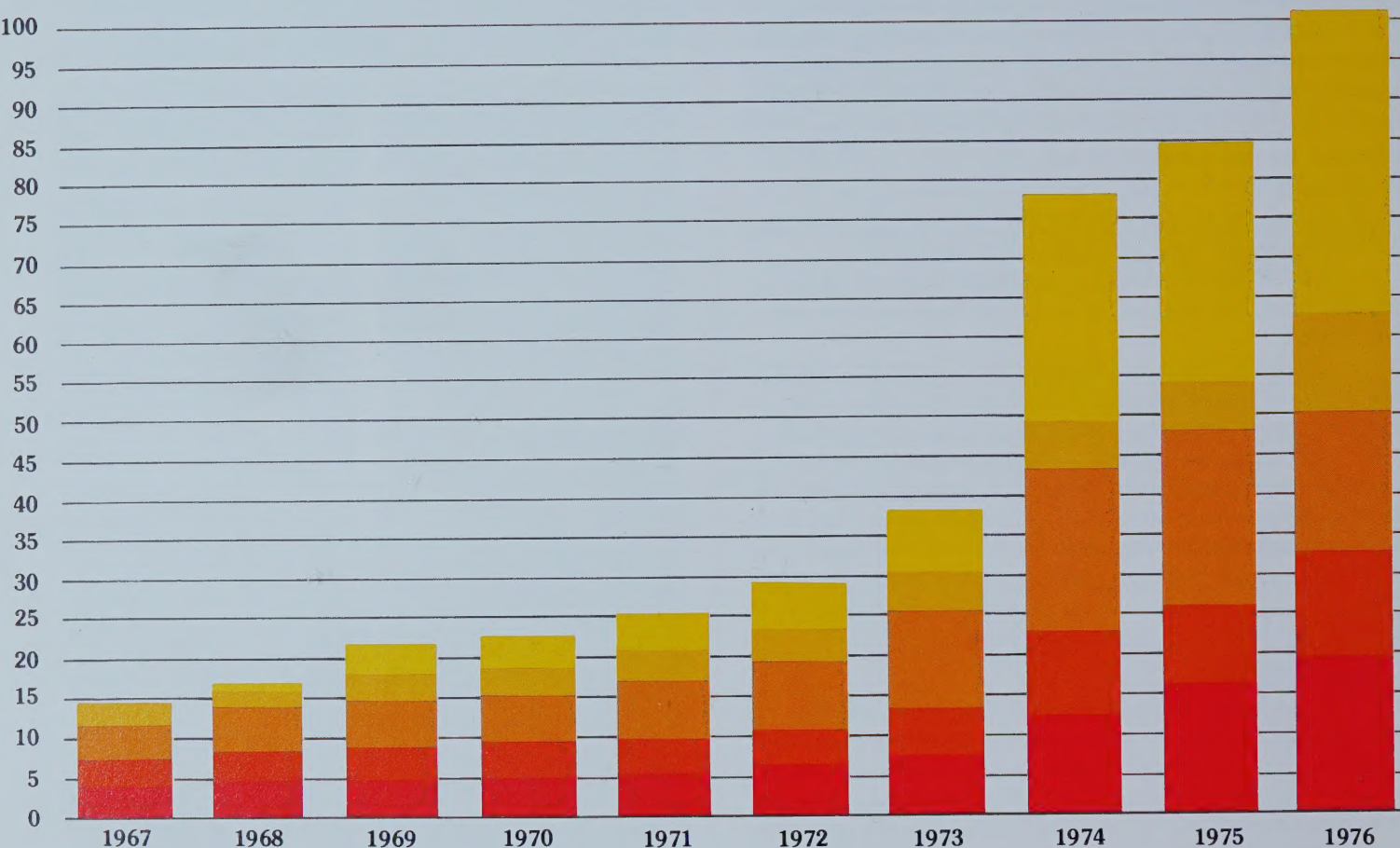
To outsiders, it may seem like the end of an era when they read this announcement. Henry H. Reichhold, founder of the American company bearing his name and the worldwide network of Reichhold Chemicals, has decided not to stand for re-election to our Board. However, he has promised to continue to be interested in our affairs and helpful wherever possible. All who have known Henry over the years have benefited from his business knowledge and philosophy. He will continue to be in our minds and hearts, and we are very pleased to acknowledge this by naming him Honorary Chairman of the Board.



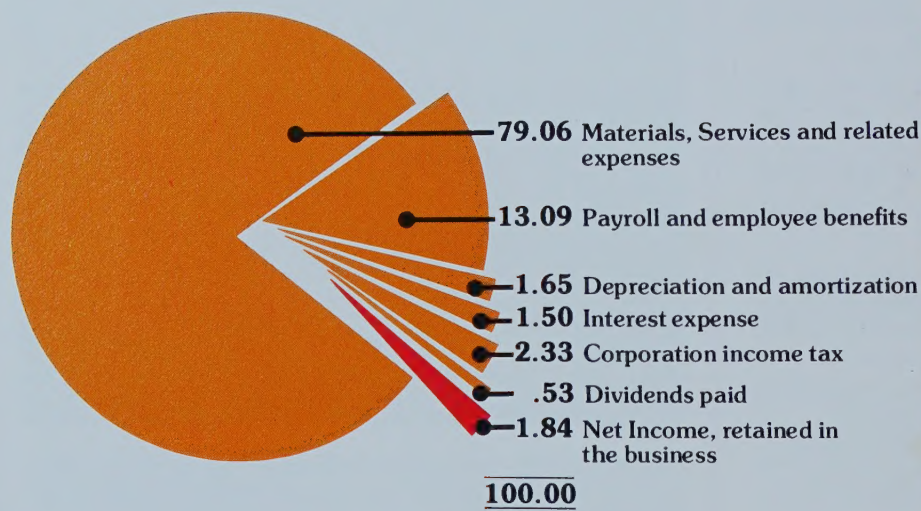
Canada Printing Ink products and services are an integral part of the rapid growth in today's sophisticated, high speed printing technology.

10 Years of Sales Growth

Millions of Dollars



Disposition of sales dollar: 1976



Dollar sales product mix: 1976

38% Printing Inks, Graphic Arts Equipment and Supplies.

12% Decorative Overlays, Specialty Industrial Resins, Adhesives, Chemicals, Oils, Specialty Oil and Gas Chemicals.

18% Resins for Paint, Surface Coatings.

13% Plastics and Moulding Compounds for Electrical Appliances, Transportation, Recreation, Industrial, Decorative Applications.

19% Resins for Forest Products, Plywood, Particleboard, Paper.

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31, 1976 with comparative figures for 1975
(Thousands of dollars except per share items)

	1976	1975
Net sales (note 8)	\$100,337	\$82,733
Cost of sales	77,510	64,613
Gross profit	22,827	18,120
Selling, general and administrative expenses	16,564	12,685
Net operating profit	6,263	5,435
Other expenses:		
Interest (note 10)	1,547	812
Earnings before income taxes	4,716	4,623
Income taxes:		
Current	1,540	1,362
Deferred	795	886
	2,335	2,248
Net earnings	2,381	2,375
Retained earnings, beginning of year	11,131	9,261
	13,512	11,636
Deduct dividends	531	505
Retained earnings, end of year (note 5(d))	\$ 12,981	\$11,131
Earnings per share	\$ 4.48	\$ 4.47
(fully diluted earnings per share for 1976—\$3.87, for 1975—\$3.86, note 6)		
The above statement of earnings includes the following charges:		
Depreciation and amortization of leasehold improvements	\$ 1,451	\$ 1,047
Amortization of deferred charges	28	16
Amortization of goodwill	181	151
Directors' and senior officers' remuneration	452	428

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1976 with comparative figures for 1975

(Thousands of dollars)

Assets	1976	1975
Currents assets:		
Cash	\$ 751	\$ 1,305
Receivables, less allowance for doubtful accounts \$780 (1975 — \$406)	17,280	12,378
Current portion of lien notes receivable (note 3)	1,152	885
Inventories:		
Raw materials	4,363	3,404
Finished goods	9,471	7,423
Total inventories	13,834	10,827
Prepaid expenses and deposits	699	294
Total current assets	33,716	25,689
Lien notes receivable (note 3)	2,012	1,843
Property, plant and equipment:		
Buildings	5,088	5,282
Equipment and leasehold improvements	22,773	16,349
	27,861	21,631
Less accumulated depreciation and amortization	10,573	9,122
	17,288	12,509
Land	821	461
Net fixed assets	18,109	12,970
Other assets, at cost less amortization:		
Goodwill	471	489
Deferred charges	382	121
	853	610
	\$54,690	\$41,112

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	1976	1975
Current liabilities:		
Bank advances and acceptances, secured (note 4)	\$ 8,890	\$ 9,615
Accounts and note payable and accrued expenses	11,024	8,493
Income taxes payable	568	690
Current portion of long term debt (note 5)	669	1,015
Total current liabilities	21,151	19,813
Long term debt (note 5)	14,126	4,532
Deferred income taxes	3,772	2,977
Shareholders' equity:		
Capital stock (note 6)		
Common shares without nominal or par value		
Authorized 2,287,500 shares, issued 531,499 shares	1,224	1,223
(1975—531,424 shares)		
Contributed surplus	1,436	1,436
Retained earnings (note 5(d))	12,981	11,131
Total shareholders' equity	15,641	13,790
Commitments (note 7)		
	\$54,690	\$41,112

On behalf of the Board: D.G. McNabb, Director, G.L. Hagen, Director.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Reichhold Chemicals Limited as at December 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Toronto, Ontario
February 24, 1977*

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1976 with comparative figures for 1975
(Thousands of dollars)

	1976	1975
Additions to working capital:		
Net earnings	\$ 2,381	\$2,375
Depreciation and amortization	1,660	1,214
Deferred income taxes	795	886
Additions to working capital from operations	4,836	4,475
Shares issued	1	1
11-1/4% Sinking Fund Debentures, Series B (note 5)	7,000	—
Mortgage financing (note 5)	3,000	—
Total additions to working capital	14,837	4,476
Deductions from working capital:		
Purchase of businesses for \$4,738 less working capital acquired \$2,195 (note 2)	2,543	—
Net additions to fixed assets	4,210	4,671
Lien notes receivable additions (deductions)	169	(590)
Deferred charges, addition	289	—
Long term debt, reduction	406	1,080
Dividends paid	531	505
Total deductions from working capital	8,148	5,666
Increase (decrease) in working capital	6,689	(1,190)
Working capital beginning of year	5,876	7,066
Working capital, end of year	\$12,565	\$5,876

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1976

1. Summary of significant accounting policies:

The accounting policies of the Company conform with accounting principles generally accepted in Canada. The significant policies are summarized below:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly-owned. All material intercompany items have been eliminated.

(b) Inventories:

Inventories of raw materials are stated at the lower of cost and replacement cost and finished goods at the lower of cost and net realizable value except for chemical manufactured goods which are generally at the lower of cost and reproduction cost.

(c) Property, plant and equipment:

Property, plant and equipment are carried at cost. Depreciation on buildings is computed on the declining balance method and on equipment on the straight line method at rates to recover the cost of such assets over their estimated useful lives. Leasehold improvements are amortized over the terms of the leases.

(d) Goodwill:

Goodwill, being the excess of the cost of subsidiaries and businesses acquired over the value of their underlying net assets at the dates of acquisition, is being amortized to earnings on a straight line basis over varying periods ranging from 5 to 10 years.

(e) Income Taxes:

Deferred income taxes are provided in recognition of timing differences between financial statement and tax reporting. Such timing differences relate primarily to depreciation expense and income recognition on instalment sales secured by lien notes receivable. Investment tax credits are treated as a reduction of the carrying value of the related assets.

(f) Research and development costs:

Research and development costs relating to both future and present products are charged against income as incurred.

2. Acquisitions:

During the year the Company acquired the business and assets and assumed the liabilities of certain businesses, accounting for them by the purchase method as follows:

	* Travis and Molsberry	Other Acquisitions	Total
	(Thousands of dollars)		
Dates of acquisitions	June 30th, 1976	April 1 and July 15, 1976	
Net assets acquired, at fair values:			
Net current assets	\$1,575	\$ 620	\$ 2,195
Fixed assets	2,213	230	2,443
	3,788	850	4,638
Goodwill, being the excess of the purchase price over the fair value of net assets acquired	\$ — 3,788	100 \$ 950	100 \$ 4,738
Consideration:			
Cash	2,538	950	3,488
Non interest bearing notes payable due January 1, 1977	1,000		1,000
due January 1, 1978	250		250
	\$3,788	\$ 950	\$ 4,738

Travis Chemicals Division supplies chemicals and services to the oil and natural gas processing industry, and Molsberry Division is engaged in supplying vegetation control services. Of the other acquisitions, one is in the ink supply and graphic products business and the other is a distributor of certain basic products to the reinforced plastics industry. Goodwill above is being amortized to earnings on a straight line basis over five years.

*Travis Chemicals and Molsberry Divisions of Wainoco Oil Limited

Notes to Consolidated Financial Statements (continued)

3. Lien notes receivable:

Lien notes receivable consist of the following:

	1976	1975
	(Thousands of dollars)	
Gross amounts receivable	\$4,441	\$3,759
Less unearned interest	<u>1,277</u>	<u>1,031</u>
	3,164	2,728
Less current portion	<u>1,152</u>	<u>885</u>
	<u>\$2,012</u>	<u>\$1,843</u>

4. Bank advances and acceptances:

Bank advances and acceptances are secured by a general assignment of receivables and by a pledge of inventories.

5. Long term debt:

Long term debt consists of the following:

	1976	1975
	(Thousands of dollars)	
12% note payable	\$ 536	\$ 972
Non interest bearing note payable due January 1, 1978	250	—
Mortgage financing	3,000	—
Sinking fund debentures:		
8-1/2% Series A, due November 1, 1989	3,340	3,560
11-1/4% Series B, due February 15, 1996	7,000	—
	<u>\$14,126</u>	<u>\$4,532</u>

(a) 12% note payable:

The note is secured by an assignment of a portion of the lien notes receivable and a charge on all the other assets of a subsidiary company and is payable in monthly instalments to April 30, 1980 out of collections from the lien notes receivable but may be retired in full after January 1977.

(b) Mortgage financing:

To finance the construction of the Thunder Bay

plant completed in 1976, the Company has obtained a bridge financing loan of \$3,000,000 repayable by June 1978, secured by a purchase money mortgage on the property. The Company intends to refund such indebtedness by an issue of first mortgage bonds maturing in 1992, carrying a rate of interest of 10-5/8% per annum and secured by a first fixed charge on the Thunder Bay property. In addition the bonds will be secured by a floating charge on all other assets of the Company but subject to the floating charge created to secure the company's sinking fund debentures.

(c) Sinking fund debentures:

The debentures are secured by a first floating charge on all the assets of the Company and certain of its subsidiaries, subject to the purchase money mortgage on the Thunder Bay property referred to above and except for the receivables and inventories assigned to secure bank advances (note 4).

The Company is required to establish sinking funds sufficient to retire, with respect to the Series A issue, \$220,000 principal amount annually to 1979, and thereafter, equal annual payments reducing the principal amount outstanding to \$800,000 by November 1, 1988, and in the case of Series B issue, 8.5% annually of the principal amount outstanding on February 15, 1986, commencing in 1987 and continuing through 1995.

The Company may, if certain conditions are met, including payment of premiums, redeem the debentures. The holder of any Series B debenture, has the right to require the Company to prepay the principal amount on February 15, 1986.

During 1976, Series A debentures in the principal amount of \$237,000 were purchased of which \$220,000 was applied against the 1976 sinking fund requirement.

(d) Dividend restriction:

Under the most restrictive of the provisions relating to the issue of the above debentures with respect to

the payment of dividends, \$5,582,000 of consolidated retained earnings at December 31, 1976 are free of such restrictions.

6. Capital Stock:

As at December 31, 1976, 99,725 common shares were reserved with respect to share purchase warrants issued in association with the sale of the 8-1/2% sinking fund debentures, Series A. 75 share purchase warrants were exercised during the year. Each warrant is exercisable to November 1, 1979 and entitles its holder to purchase one common share for \$12.00 cash.

The Company has a stock option plan whereby 10,000 common shares have been reserved for purchase by key employees of the Company and its subsidiaries at prices to be not less than the market value as determined by trading on the Toronto Stock Exchange on the day each option is granted. At December 31, 1976 options covering 2,000 shares were outstanding at \$17.875 per share exercisable to 1980.

No options were granted in 1976.

Exercise of the share purchase warrants and options would result in dilution of earnings per share as disclosed in the consolidated statement of earnings.

7. Commitments:

As at December 31, 1976 annual rentals on leased premises amounted to \$490,000; leases extend to various dates to 1984. At December 31, 1976 contracts for plant and equipment additions amounted to approximately \$672,000.

8. Revenue by principal classes of operations:

Details of revenue by principal classes of operations are as follows:

	1976	1975
	(Thousands of dollars)	
Printing inks, graphic arts		
equipment and supplies	37,771	29,374
Resins	37,276	36,682
Plastics and moulding		
compounds	12,839	10,376
Decorative overlays and other	12,451	6,301
	<u>\$100,337</u>	<u>\$82,733</u>

9. Pension plans:

The Company maintains pension plans which cover substantially all of its employees. In 1976 an actuarial valuation as at December 31, 1975 indicated unfunded liabilities of the plans totaling \$627,000. This amount is being paid and charged to income over a period of 5 years being annual amounts of \$146,000 for four years and \$124,000 in the fifth year.

10. Interest:

Interest expense (net) is comprised as follows:

	1976	1975
	(Thousands of dollars)	
Interest on long term debt	\$1,058	\$ 473
Other	1,004	892
	<u>2,062</u>	<u>1,365</u>
Deduct interest income	515	553
Interest expense (net)	<u>\$1,547</u>	<u>\$ 812</u>

11. Anti-Inflation Legislation:

The Company is subject to and believes it has complied with the controls on prices, profit margins, compensation and dividends under the Federal Government's Anti-Inflation program.

REICHHOLD CHEMICALS LIMITED
10 Year Financial Review
(Thousands of dollars except per share items)

	1976	1975	1974	1973
Net sales	\$100,337	\$82,733	\$76,860	\$36,972
Earnings before income taxes	4,716	4,623	8,210	2,930
Net earnings	2,381	2,375	4,218	1,632
Expenditures on fixed assets	6,653	4,671	2,795	2,316
Provision for depreciation and amortization	1,660	1,214	1,148	762
Fixed assets at net book value	18,109	12,970	9,346	7,469
Earnings per common share*	\$ 4.48	\$ 4.47	\$ 7.94	\$ 3.38
Dividends paid per common share*	\$ 1.00	\$.95	\$.72	\$.42
Book value per common share*	\$ 29.43	\$25.95	\$ 22.43	\$ 15.21

***Note**

Calculation of net earnings per common share is based on the weighted monthly average number of shares outstanding during the respective periods. Book value per common share is based on the number of shares outstanding at the end of the respective periods. The number of common shares and per share calculations have been adjusted where applicable to reflect the stock split in December 1968 whereby two additional shares were issued for each share held prior to the split.

1972	1971	1970	1969	1968	1967
\$27,252	\$24,203	\$21,762	\$21,202	\$16,108	\$13,286
1,826	1,046	327	319	631	886
981	512	145	217	322	451
1,074	677	742	979	392	658
635	579	525	632	603	586
5,014	4,524	4,401	4,175	3,824	3,909
\$ 2.04	\$ 1.06	\$.30	\$.45	\$.67	\$.99
\$.30	\$.24	\$.24	\$.24	\$.21	\$.20
\$ 11.95	\$ 10.21	\$ 9.38	\$ 9.31	\$ 8.85	\$ 8.25

Directors and Officers

Directors

ROBERT J. ADAMS

Vice-President, Eastern Division,
Reichhold Chemicals Limited

CHARLES B. BREEDLOVE

Executive Vice-President,
Reichhold Chemicals, Inc.

PETER J. FASS

President,
Reichhold Chemicals, Inc.

GEORGE L. HAGEN

President and
Chief Executive Officer,
Reichhold Chemicals Limited

DONALD G. McNABB

Executive Vice-President,
Reichhold Chemicals Limited

WILLIAM H. MUNDEN

Vice-President & General Manager,
The Canada Printing Ink
Company Limited

HENRY H. REICHHOLD

Chief Executive Officer,
Reichhold Chemicals, Inc.

WILLIAM H. SEARS

Vice-President & General Manager,
Sears Limited

BRIAN W. SHIELDS, Q.C.

Partner, Law firm of Tory, Tory,
DesLauriers & Binington

Officers

H. H. REICHHOLD

Chairman of the Board

G.L. HAGEN

President and Chief Executive
Officer

D.G. McNABB

Executive Vice-President

R. J. ADAMS

Vice-President, Eastern Division

A. B. DAVIE

Vice-President, Western Division

D. J. McLEOD

Vice-President, Central Division

* W. H. MUNDEN

Vice-President

R. T. O'SHAUGHNESSY

Vice-President, Administration

T. I. PAUL

Comptroller

* W. H. SEARS

Vice-President

B. W. SHIELDS, Q.C.

Secretary

R. F. SMITH

Vice-President & Division Manager
Travis Chemicals Division

* Appointed March 1977

Plants and Offices Reichhold Chemicals Ltd.

RESIN DIVISION

Plants and sales offices

Islington, Ontario (Head Office)

Weston, Ontario

Ste. Thérèse de Blainville, Quebec

Lindsay, Ontario

North Bay, Ontario

Thunder Bay, Ontario

Kamloops, British Columbia

Port Moody, British Columbia

Travis Chemicals Division

Calgary, Alberta

Edmonton, Alberta

Fort St. John, British Columbia

Molsberry Division

Edmonton, Alberta

Calgary, Alberta

Peterborough, Ontario

Intertech Division

Richmond, British Columbia

Calgary, Alberta

Winnipeg, Manitoba

Boucherville, Quebec

Dartmouth, Nova Scotia

PRINCIPAL SUBSIDIARIES

The Canada Printing Ink Company Limited

Halifax, Nova Scotia

Moncton, New Brunswick

Quebec City, Quebec

Montreal, Quebec

Ottawa, Ontario

Toronto, Ontario

London, Ontario

Winnipeg, Manitoba

Edmonton, Alberta

Vancouver, British Columbia

Sears Limited

Moncton, New Brunswick

Quebec City, Quebec

Montreal, Quebec

Ottawa, Ontario

Toronto, Ontario

London, Ontario

Winnipeg, Manitoba

Saskatoon, Saskatchewan

Edmonton, Alberta

Calgary, Alberta

Vancouver, British Columbia

Registrar and Transfer Agent Common Stock:

National Trust Company, Limited

Toronto, Montreal, Vancouver,

Calgary, Winnipeg

Auditors:

Peat, Marwick, Mitchell & Co.

Commerce Court West,

Toronto

The company regrets the passing of Mr. Louis Roy, Vice-President, Sales (Eastern Division) and Mr. Brian Gallagher, a Director of the company and Vice-President, Finance. We wish to acknowledge their considerable contribution, and extend our sincere sympathies to their families.

Head Office

600 The East Mall,
Islington, (Toronto), Ontario
M9B 4B1

Valuation Day

For Canadian capital gains tax purposes,
the Valuation Day value of Reichhold
Chemicals Ltd. securities on December
22, 1971, as established by the
Department of National Revenue were
the following:

Debentures:

8½% due November 1, 1989 \$100.00

Common Shares: \$ 9.00



SHAREHOLDERS' REPORT

FOR 6 MONTHS ENDING JUNE 30TH, 1976

manufacturing materials for
 abrasives · adhesives · agricultural products · appliances · automotive · boats · building panels · chewing gum · closures · electrical devices · fiberglass molding · filament winding · floor polishes · floor tiles · floor waxes · flotation · foundries · furniture · highway maintenance · home construction · industrial construction · insulation · leather · packaging · paint · particle board · paper manufacture · plastic moldings · plywood · polymer production · potting compounds · protective coatings · printing inks · refrigeration · rubber products · textiles · treated fibre products · utensils · varnishes · vinyl products · abrasives · adhesives · agricultural products · appliances · automotive · boats · building panels · chewing gum · closures · electrical devices · fiberglass molding · filament winding · floor polishes · floor tiles · floor waxes · flotation · foundries · furniture · highway maintenance · home construction · industrial construction ·

equipment and supplies to
 the graphic arts industry
 baum folders · bobst cutting and creasing machines · canada printing ink · graphic arts supplies · heidelberg presses · mix & match · mueller-martini binding and mailing equipment · polar cutters · tru-dot · baum folders · bobst cutting

TO OUR SHAREHOLDERS

The Company's net income for the second quarter of 1976 was \$996,423 or \$1.87 per share. This is an increase of 27% over the corresponding period of 1975.

For the first half year, net income was \$1,552,466 or \$2.92 per share, compared with \$1,209,362 or \$2.28 per share for the same period last year. First half sales reached \$48,766,853, an increase of \$6,605,154 over last year.

Sales and earnings do not include those of the Company's most recent acquisitions which have now been completed. These will add annual sales of about \$15 million and include the following profitable businesses:

Travis Chemicals	-- a chemical distributor and formulator to the oil and gas industry.
Molsberry	-- a vegetation control company.
Cal/Ink	-- printing ink division

In addition, Reichhold is now selling a wider variety of products to the fiberglass reinforced plastics market through its' new Intertech division.

The Company's new \$4 million resin plant in Thunder Bay, Ontario started production this week. It produces urea-formaldehyde binders for the particle-board and other forest products plants in northwestern Ontario.

Demand continues strong for most of the Company's products. The second half is expected to be very good and sales for the full year will exceed \$100 million.

GEORGE L. HAGEN
President

July 30, 1976

A NOS ACTIONNAIRES

Le revenu net de la Compagnie pour le deuxième trimestre de 1976 s'élevait à \$966,423, soit \$1.87 par action. Ceci représente une augmentation de 27% par rapport à la période correspondante de 1975.

Pendant la première moitié de l'exercice, le revenu net se chiffrait à \$1,552,466, soit \$2.92 par action, contre \$1,209,362, soit \$2.28 par action pour la même période de l'exercice précédent. Les ventes de mi-année ont atteint \$48,766,853, soit une augmentation de \$6,605,154 par rapport à l'année dernière.

Les ventes et les bénéfices des plus récentes acquisitions de la Compagnie définitivement conclues maintenant, ne sont pas compris dans les chiffres qui précèdent. Ces acquisitions ajouteront environ \$15 millions aux ventes annuelles et elles englobent les entreprises rentables suivantes:

Travis Chemicals	-- un distributeur et formulateur pour l'industrie du pétrole et du gaz
Molsberry	-- une compagnie de contrôle de la végétation
Cal/Ink	-- une division d'encre d'imprimerie

De plus, Reichhold vend maintenant une grande variété de produits au marché des articles en fibre de verre renforcée avec des plastiques, par l'intermédiaire de sa nouvelle division Intertech.

La nouvelle usine de résine de la Compagnie, une entreprise de \$4 millions, située à Thunder Bay dans l'Ontario, a entamé la production cette semaine. Elle fabrique des liants urée-formaldéhyde pour les usines de fabrication de panneaux en agglomérés et autres produits forestiers.

La demande pour d'autres produits de la Compagnie se maintient fermement. Les prévisions pour la seconde moitié de l'exercice, s'annoncent bonnes et les ventes de l'exercice total dépasseront \$100 millions.

GEORGE L. HAGEN
Président

Le 30 juillet 1976

Interim Statement of Changes in Financial Position

For the six months ended June 30, 1976 and 1975
(Subject to year end audit and adjustment)

	Second Quarter 1976	First Half 1976 1975	
		(thousands of dollars)	
Additions to working capital:			
Net earnings	\$ 997	\$1,553	\$1,209
Depreciation and amortization	381	758	686
Increase in deferred income taxes		—	210
Decrease in lien notes receivable		—	464
Exercise of share purchase warrants	1	1	2
Government grant			141
11-1/4% Debentures - Series B	—	7,000	—
	\$1,379	\$9,312	\$2,712
Deductions from working capital:			
Net additions to fixed assets	\$3,236	\$4,404	\$1,536
Reduction of Long Term Debt	38	130	719
Dividends	133	266	239
Increase in deferred charges	12	257	
Increase in lien notes receivable	298	462	
Redemption of 8-1/2% Debentures	—	17	
Decrease in deferred income taxes	—	2	
	\$3,717	\$5,538	\$2,494
Increase/(decrease) in working capital	(\$2,338)	\$3,774	\$ 218
Working capital beginning of period	11,988	5,876	7,066
Working capital end of period	\$9,650	\$9,650	\$7,284

Comparative Sales and Earnings Report

For the six months ended June 30, 1976 and 1975
(Subject to year end audit and adjustment)

	Second Quarter 1976	First Half 1976 1975	
		(thousands of dollars)	
Sales	\$27,335	\$48,767	\$42,162
Net earnings before income taxes (1)	1,888	2,936	2,411
Estimated income taxes	891	1,383	1,201
Net earnings after income taxes	\$ 997	\$ 1,553	\$ 1,210
Common shares outstanding	531,499	531,499	531,424
Earnings per common share	\$1.87	\$2.92	\$2.28
Fully diluted earnings per share	\$1.61	\$2.51	\$1.97
(1) After deducting interest expense (Net)	\$341	\$608	\$344